



# Business Combinations and Asset Acquisitions

## FASB—IASB Education Meeting

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# Overview

## Background

- In January 2025, the Board issued an Invitation to Comment, *Agenda Consultation (2025 ITC)*, that gave stakeholders the opportunity to provide feedback on its future standard-setting agenda.

## Business Combination Feedback Received Under Several Different Topics

- There were several sections of the 2025 ITC that provided for specific discussion of the business combinations guidance (and related areas), including:
  1. Interaction of Consolidation Guidance and Other Transactions
  2. Enhanced Disclosures
  3. Definition of a Business
  4. Pushdown Accounting.

# Feedback Provided During 2025 ITC Development

## Interaction of Consolidation Guidance and Other Transactions

Guidance	Stakeholders' Observations	Stakeholders' Suggested Alternatives
Business combinations and asset acquisitions	<ul style="list-style-type: none"><li>• Asset acquisition guidance (Subtopic 805-50) is <b>incomplete</b> and <b>lacks specificity</b> for certain items (e.g., contingent consideration, NCI, income taxes, and employee benefits).</li><li>• <b>May be unclear when Subtopic 805-50 applies</b> versus asset-specific guidance.</li><li>• <b>Entities analogize to other GAAP</b> and diversity in practice exists in accounting for these transactions.</li></ul>	<ul style="list-style-type: none"><li>• Clarify Subtopic 805-50 asset guidance.</li></ul>
Acquisitions of nonbusiness variable interest entities (VIEs)	<ul style="list-style-type: none"><li>• <b>Guidance for acquisitions of VIEs</b> that do not meet the definition of a business <b>is different</b> from the requirements for other asset acquisitions</li><li>• Current accounting can produce <b>different outcomes for economically similar transactions.</b></li></ul>	<ul style="list-style-type: none"><li>• Consider extending Subtopic 805-50 or Topic 810 to apply to all asset acquisitions, including acquisitions of VIEs that do not meet definition of a business.</li></ul>

# Feedback Received in Comment Letters

## Interaction of Consolidation Guidance and Other Transactions

Guidance	Stakeholders' Feedback (20 Comment Letters, 13 Supporting Prioritization and 7 Not Supporting Prioritization)—Feedback Received Primarily from Practitioners
Business combinations and asset acquisitions	<ul style="list-style-type: none"><li>• <b>Lack of detailed guidance</b> in Subtopic 805-50 and inconsistent models has resulted in <b>diverse outcomes for similar transactions</b>.</li><li>• <b>Asset acquisitions have become more prevalent</b>.</li><li>• <b>Stakeholders that supported</b> this approach suggested (not exhaustive):<ul style="list-style-type: none"><li>○ <b>More specific asset acquisition guidance</b> (e.g., contingent consideration, IPR&amp;D, contract assets and liabilities, NCI, and income taxes)</li><li>○ <b>Alignment</b> of asset acquisition and business combination models</li><li>○ <b>Clarify the scope</b> of Subtopic 805-50.</li></ul></li><li>• Stakeholders that <b>did not support</b> noted that <b>current guidance is sufficient</b> or <b>anticipated long-term commitment/holistic review would be necessary</b>.</li></ul>
Acquisitions of nonbusiness variable interest entities (VIEs)	<ul style="list-style-type: none"><li>• Those that supported said that the <b>Board should require application of Subtopic 805-50 to all asset acquisitions</b> (including acquisitions of nonbusiness VIEs).</li><li>• Those that did not support said that <b>issues in this area are not common</b>.</li></ul>

# Enhanced Disclosures: Feedback Provided During 2025 ITC Development

- As noted in the 2025 ITC, **investors and other stakeholders continue to request additional quantitative and/or qualitative financial reporting information** about a range of areas.
- Stakeholders explained that **additional information would provide investors with a better understanding of an entity's performance** and would better enable investors to assess the future cash flows and risks in their capital allocation decisions.
- One of the suggestions made by stakeholders was to **require preacquisition financial statements for an acquiree in a business combination**.
  - Certain financial statement information is currently required by the SEC for significant business combinations.

# Enhanced Disclosures: Feedback Received in Comment Letters

In response to the 2025 ITC, stakeholders suggested the following enhanced disclosures about business combinations:

- Enhanced acquisition-date information about the **valuation techniques and inputs used in fair value measurements**
- **Preacquisition information about the acquiree** in a business combination, such as:
  - Financial statements of the acquiree,
  - Qualitative information like the structure of the transaction, or
  - The expected impact on future earnings of the acquirer.
- The **effect of business combinations on financial statement line items**
- Information about the **expectations of earnout provisions and contingent consideration** that may be paid under the terms of business acquisition agreements
- **Revenue associated with the acquired entity** in the first year of acquisition.

# Definition of a Business: Overall Feedback

- As part of the outreach performed in preparing the 2025 ITC, it was recommended that the Board consider further revisions to the definition of a business.
- **Twenty-three stakeholders** directly responded to Question 9 or provided general feedback on the definition of a business.
  - **Most** of those stakeholders noted that the definition of a business is a **low priority**.
  - **A few** stakeholders identified the definition of a business as a **top priority**
  - **A few** stakeholders were **neutral on priority**.

# Definition of a Business: Detailed Feedback

## Reasons cited for identifying business as a **low priority**:

- **Definition is generally operable:** no significant practice issues or diversity in practice requiring revision
- **Challenges stem from business combinations/asset acquisition differences,** not the definition
- **Additional guidance is** unlikely to reduce complexity
- Potential for **unintended consequences.**

## Reasons cited for identifying as a **high priority**:

- Evaluating the definition can be **complex** and require **significant judgment.**
- The **screen test** can be **costly to evaluate** for certain industries and can result in **conclusions inconsistent with the economics.**

Feedback received primarily from **practitioners and preparers**

# Definition of a Business: Suggested Improvements

## Suggested solutions included:

- **More implementation guidance and examples:** particularly on what constitutes a *substantive process* (paragraph 805-10-55-5E)
- **Recharacterize the screen test:** make it an indicator rather than a sole determinative factor to prevent transactions that otherwise meet the definition from being asset acquisitions
- **Allow asset grouping in the screen:** permit combining tangible and intangible assets (with no alternative use apart from the related tangibles) into a single identifiable asset
- **Reinstate integral equipment guidance:** reintroduce superseded guidance (former paragraph 360-20-55-9) to help determine when two assets should be combined for screen purposes
- **Revisit the organized workforce requirement:** reconsider requiring an organized workforce when there are no outputs, including whether workforce-in-place should be treated differently than contracts to perform processes

# Pushdown Accounting: Overall Feedback

- As part of the outreach performed in preparing the ITC, **private company stakeholders** provided feedback citing a **lack of illustrations** for the **optional** pushdown accounting guidance in Subtopic 805-50. Some suggested that the Board provide **additional implementation guidance and illustrative examples**.
- **Twenty-one stakeholders** directly responded to Question 12 or provided general feedback on pushdown accounting.
  - **Most** of those stakeholders noted that pushdown accounting is a **low priority** (e.g., because there is no significant diversity in practice).
  - **A few were neutral on priority**.
  - **A few** indicated the Board should prioritize a related issue on the **required pushdown of the parent's basis in a common control transaction**

# Pushdown Accounting: Implementation Challenges and Suggested Improvements

## Implementation Challenges (Lack of Authoritative Implementation Guidance)

- Entities **rely on SEC staff speeches and nonauthoritative practitioner guides**
- **No guidance on "black line"** presentation between predecessor/successor periods
- **Unclear treatment of acquisition-related expenses across periods**
- Difficulty **distinguishing items pushed down to the acquiree vs. recorded at the acquirer level** (e.g., debt and contingent consideration)
- Determining **opening balances** for stockholders' equity and cash flows
- Whether the acquirer's **measurement period** may be used by the acquiree

## Suggested Improvements

- **Clarify scope** (e.g., does pushdown include asset acquisitions of legal entities?)
- **Provide guidance or illustrative examples** for contingent consideration, goodwill, deferred taxes, and foreign currency translation
- **Codify current best practice**

**Other:** One stakeholder noted that it would not support changing the optional nature of the guidance.

# Other Business Combination Feedback Received

- Other business combination issues raised by stakeholders:
  - Determining the accounting acquirer
  - Previously held interests
  - Initial measurement of acquired intangible assets
  - Representation and warranties insurance
  - Ownership of escrow accounts
  - Compensation expense: payment is made to a seller but linked to an employee's continuing service
  - Recognition of transaction expenses by a NewCo
  - Assumed liabilities (debt settled at/near closing)

# Next Steps

- The Board will discuss feedback received in response to the 2025 ITC in an upcoming Board meeting.

# Thank You

